



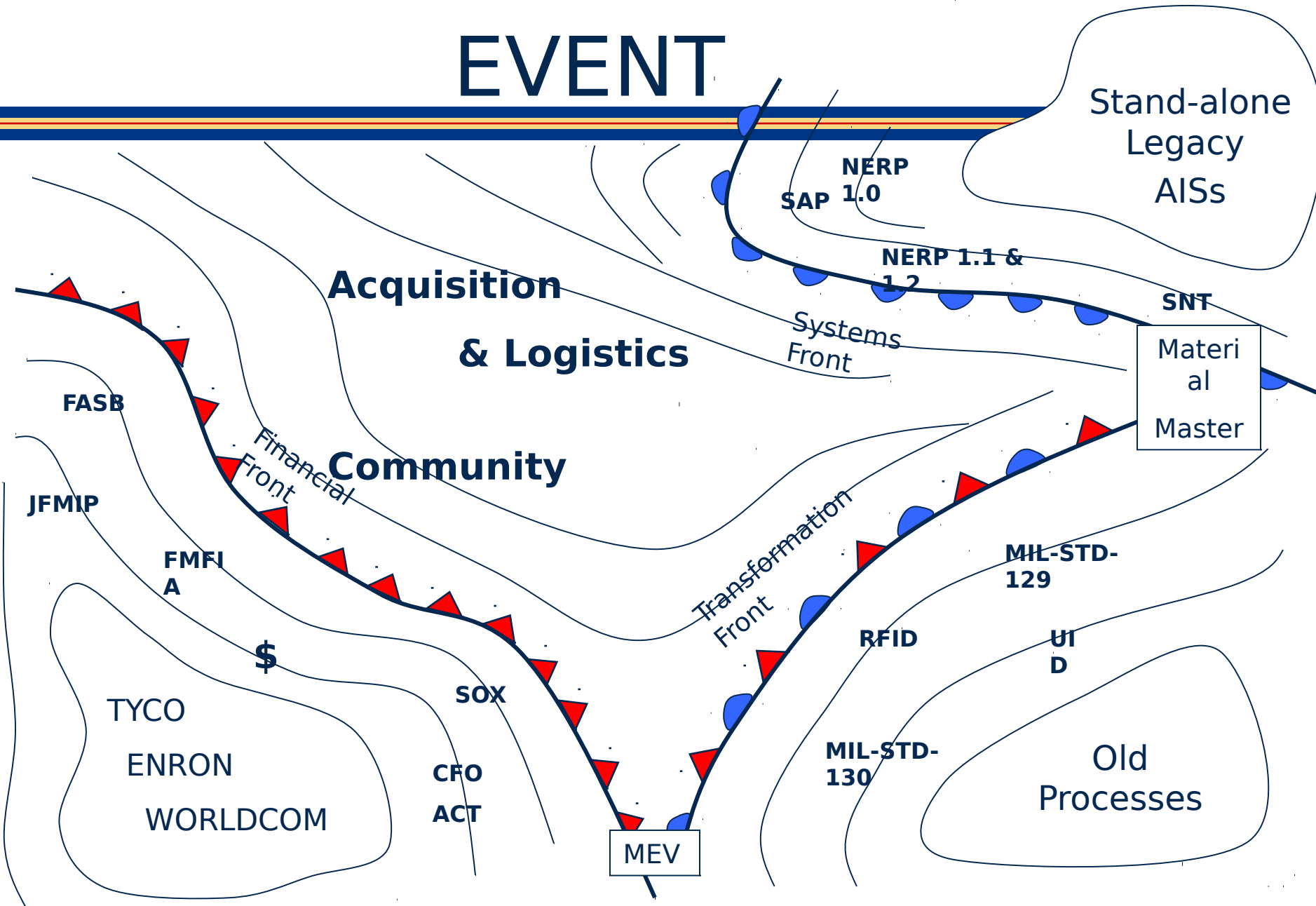
Navy ERP Material Accounting

29 July 2009

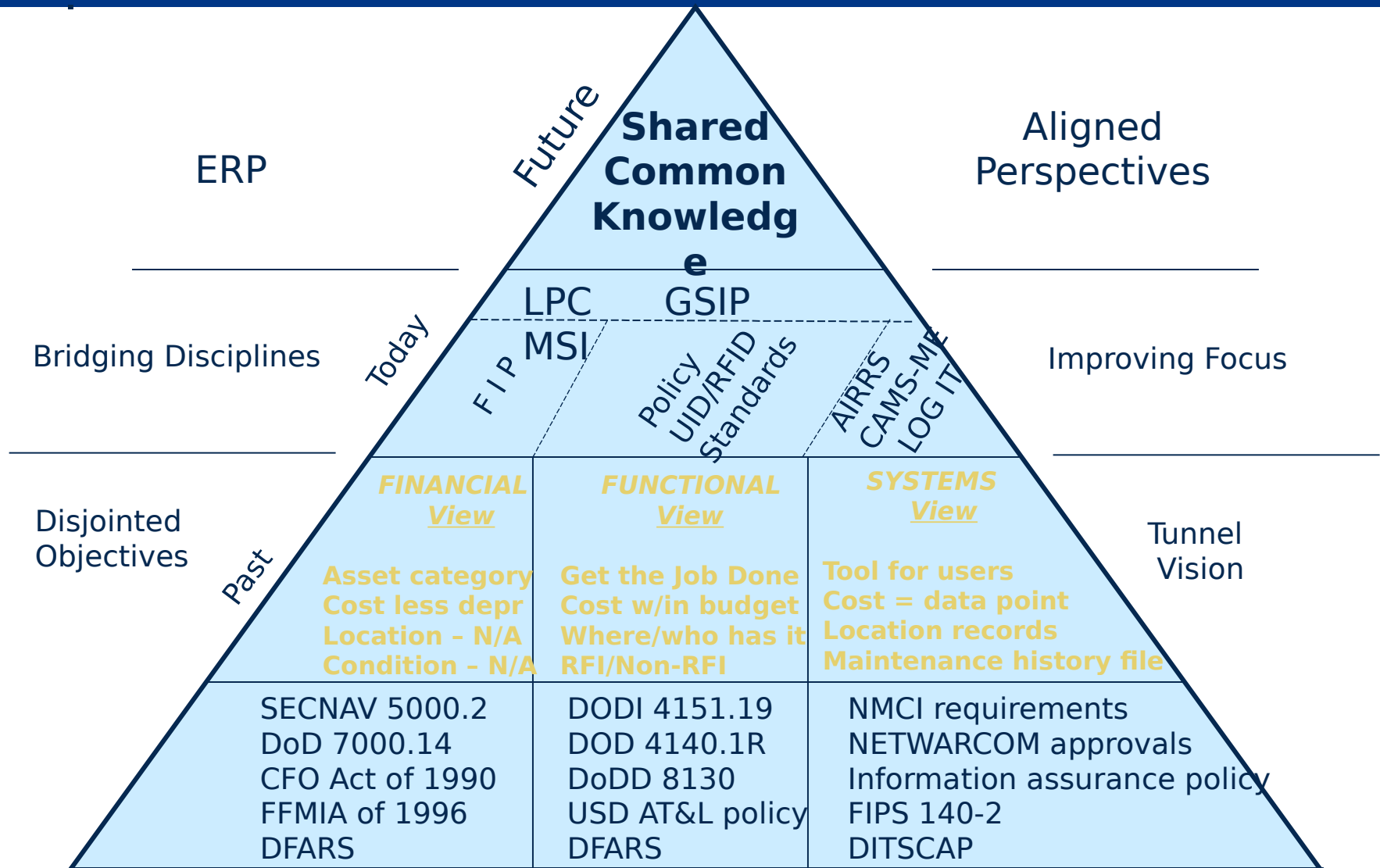
OUTLINE

- Current Environment
- Current Policy
- OM&S Materials in Navy ERP
- Current Process Implemented
- ERP 1.1 Process Changes Required
- Impact of Process Change
- Proposed Way Ahead

A CATEGORY 5 BUSINESS EVENT



WORKING TOWARDS A MUTUAL UNDERSTANDING



DON FIP FY2010 PRIORITIES

- Statement of Budgetary Resources
- Military Equipment
- General Property
- Operating Material and Supplies (OM&S)

RELATIONSHIP OF STATEMENT OF BUDGETARY RESOURCES TO CURRENT SEGMENTS

Current segment efforts should be addressing budgetary perspective. New priority will have limited impact on execution strategy.

Department of the Navy Segments

**Funds Receipt and
Distribution**

RWO Performer

RWO Grantor

**Other Contractual
Services**

Military Pay

Civilian Pay

Collections

Disbursements

Statement of Budgetary Resources

Budgetary Resources

- *New budget*

authority

-

Unobligated balances

(beginning)

- *Spending*

Authority from Offsetting

Collections

- *Adjustments to*

Budgetary Resources

Status of Budgetary

Resources

- *Obligations*

incurred

-

Unobligated balances (available)

- *Unobligated balances*

(unavailable)

**Relationship of Obligations to
Outlays**

STATEMENT OF BUDGETARY RESOURCES (SBR)

Definition of Priority Area

- The SBR provides information about budgetary resources made available to an agency as well as the status of those resources at the end of the reporting period.
- The SBR serves as a tool to link budget execution data in an agency's financial statements to information reported in the "actual" column of the Program and Financing (P&F) Schedules in the Appendix of the Budget of the United States Government.
- Key business events include funds receipt and distribution, obligations incurred/expended (including undelivered orders, delivered orders unpaid, delivered orders paid), status of reimbursable authority, and outlays.

Rationale as a Priority

- USD(C) has defined Statement of Budgetary Resources as a priority for financial improvement. USD(C) rationale states that SBR is the statement that captures the most used information in the Department.
- The Marine Corps Audit of the SBR will commence in FY 2010. Navy can leverage lessons learned from this effort.

Key Players

- FMO/FMB (Owner)
- DFAS (Key Service Provider)
- All Commands (Stakeholders)

Desired FIP Accomplishments for 9/30/2010

- Conduct risk analysis, identify key controls, and test key controls in alignment with supporting segments.
- Implement corrective actions in alignment with supporting segments.

Approach

- Confirm key business processes materially impacting the SBR.
- Execute control focused effort consistent business process segment priorities efforts at the enterprise, command, and DFAS level. Effort focused on implementation of internal controls and establishing testing/monitoring procedures to ensure control effectiveness.
- Perform substantive test procedures at the enterprise level.
- Use the Marine Corps lessons learned to strengthen the internal control environment within the Navy.

MILITARY EQUIPMENT

Definition of Priority Area

- The Military Equipment segment includes the E2E process of acquiring Military Equipment assets through the ultimate disposition. Military Equipment is acquired through purchase, construction, donation, or asset transfer. Many DON organizations own Military Equipment. DoN commands maintain assets records in the NVR (ships) and AIRRS (aircraft), and the Defense Property Accountability System (DPAS).
- Key business events include purchase, work in process, depreciation, and asset disposal.

Rationale as a Priority

- Military Equipment is the largest asset balance on the DON Financial Statements
- Pervasive weaknesses exist, especially in the valuation area, that will take a number of years to remediate.

Key Players

- NAVSEA (Owner- Ships)
- NAVAIR (Owner- Aircraft)
- SPAWAR, USMC (Owners)
- ASN(RD&A) (Owner)
- FMO (Stakeholder)

Desired FIP Accomplishments for 9/30/2010

- Documentation of the As-Is process at material commands.
- Perform a gap analysis of processes within the Navy ERP environment
- Begin development of “to be” environment within two NAVAIR PEOs

Approach

- CAMS-ME will provide initial valuation for most Military Equipment programs
- DoD-wide initiative (PFAT4ME) in process to provide improved contracting structure to allow more accurate classification and valuation of Military Equipment assets
- Upgrades to all existing Accountable Systems of Record (ASRs), such as NVR and AAIRS, through interfaces with CAMS-ME, Fixed Asset Accounting System, and Work in Progress (via the IUID Registry) to provide sufficient improvements to audit existence and completeness
- Develop auditable valuation process, including interfaces with DUID and APUID Registries, to further enhance audit readiness, reduce risk, and ensure that equipment is correctly valued at acquisition
- Identify and train Accountable Property Officers (APOs) throughout DON, using standardized APO core competencies to be developed
- OSD/DoN develop comprehensive/detailed guidance
- Transition to sustainment
- A baseline valuation effort will be required for all Military Equipment in DPAS once sustainable process are in place

GENERAL PROPERTY

Definition of Priority Area

- The General Property segment includes the E2E process of acquiring General Property assets, through their ultimate disposition. General Property is acquired through purchase, donation, or asset transfer. Any DON organization can own General Equipment. Most DoN commands maintain asset records in DPAS, the General Property accountability system, except for BUMED which maintains its General Equipment in the Defense Medical Logistics Standard Support (DMLSS), and NAVSUP and NAVAIR, which use Navy ERP.
- Key business events include purchase, receipt and acceptance, depreciation, inventory, equipment improvements and augmentation, and asset disposal.

Rationale as a Priority

- Current discovery efforts have shown that General Property is vastly unaccounted for and may be materially understated. Due to the amount of equipment the DON owns, along with the disparate nature of its operations, this area may take a number of years to resolve.

Key Players

- | | | |
|------------------------|------------------------|-------------------------------------|
| • All Commands (Owner) | FMO (stakeholder) | ASN (RDA) (stakeholder) |
| • DRMO (stakeholder) | DPAS PMO (stakeholder) | DON Dir. for Material Readiness and |
| • DFAS (stakeholder) | DCMA (stakeholder) | Logistics (N4) (stakeholder) |

Desired FIP Accomplishments for 9/30/2010

- Document enterprise requirements for equipment receipt and acceptance corrective action via Memoranda of Understanding with commands and begin implementation of same.
- Continue to implement and monitor the PFAT4A process.

Approach

- Validate that all General Equipment is accurately recorded in ASRs
- Develop auditable valuation process, including interfaces with IUID Registry, to further enhance audit readiness, reduce risk, and ensure that equipment is correctly valued at acquisition
- Identify and train Accountable Property Officers (APOs) throughout DON, using standardized APO core competencies to be developed
- Develop controls to ensure and validate through regular inventories that all General Equipment recorded in ASR exists, and vice versa
- OSD/DoN develop comprehensive/detailed guidance
- Transition to sustainment
- A baseline valuation effort will be required for all existing General Equipment once sustainable process are in place

OPERATING MATERIALS & SUPPLIES (OM&S)

Definition of Priority Area

- The OM&S segment includes the E2E process of planning and acquiring OM&S assets through the ultimate fulfillment of requirements. OM&S is acquired through purchase, construction, or asset transfer. Any DON organization can own OM&S. DoN commands maintain OM&S asset records in various management systems that are tailored to the requirements of the particular assets.
- Key business events include purchase, Moving Average Cost valuation, and asset consumption.

Rationale as a Priority

- FY 08 includes \$61.3 billion in assets on the Balance Sheet or 14.2% of Total Assets

Key Players

- NAVSUP (Owner)
- Fleets (Owner)
- Syscoms (Owner)

Desired FIP Accomplishments for 9/30/2010

- Documentation of processes, to indicated risk and controls analysis.
- Correction of known material weaknesses

Approach

- Correct known deficiencies in OIS and ILSMIS identified through recent NAS audits
- Clean up data in all other systems in preparation for the migration to Navy ERP.
- Migrate remaining OM&S system data to Navy ERP
- Design and implement system interfaces between OIS, ILSMIS, and Navy ERP
- Develop clarifying guidance on several key issues (COSAL, Ship Supplies, SOM)

CURRENT POLICY

- Navy And DoD Policy Clearly State The Requirement For Material Accounting
 - Require Source Documentation Enabling A Clear And Concise Audit Trail Of The Reported Dollar Values
 - Maintain The Historical Cost Data
 - Perform And Document Annual Physical Inventories
- Audits By DoDIG And NAVAUDSVC Cite Navy Deficiencies In Meeting This Requirement

Navy ERP Enables Logistics and Financial Integration

CURRENT POLICY

- Material Accounting Policy
 - SECNAV INSTRUCTION 4440.33 dtd 11 Feb 09
 - DoDFMR Volume 4, Chapter 4
 - FY2008 DoN Federal Financial Management Improvement Act (FFMIA) Statement of Assurance
 - TAB D-2 Navy General Fund
 - Financial Reporting of Operating Materials & Supplies (OM&S)
 - » Perform and document annual physical inventories of OM&S
 - » Established policy to require source documentation to be provided to support or provide a clear and concise audit trail to the reported OM&S dollar values
 - » Provide adequate oversight of contract work performed to modify the OM&S updating and reporting process
 - » Maintain the historical cost data
 - Source Audits: DoDIG Reports D-2003-039, D-2004-036, D-2007-048, D-2007-085, and NAVAUDSVC Report N2007-0047

Navy ERP enables Logistics and Financial Integration

FOLLOW THE MONEY

- Program Management
 - Hardware Systems Commands (NAVAIR, NAVSEA, SPAWAR, SSP, and NAVFAC) perform life-cycle management of Navy Weapons System Acquisition Programs
 - Responsible for requirements-based procurement and repair of Operating Materials and Supplies (OM&S) Held for Use and Plant Property and Equipment (PP&E) which includes Military Equipment such as Ships, Submarines and Aircraft
 - FY08 Annual Appropriated Budget: \$54 Billion
 - 17 1506 Aircraft Procurement, Navy
 - 17 1611 Shipbuilding and Conversion, Navy
 - 17 1507 Weapons Procurement, Navy
 - 17 1810 Other Procurement, Navy
 - 17 1319 Research, Development, Test & Evaluation, Navy
 - 17 1508 Procurement of Ammunition, Navy and Marine Corps
- Supply Management
 - Supply Systems Command (NAVSUP) manages the procurement and repair of Navy Weapons System repairable spares parts and consumables
 - Responsible for demand-based procurement and repair of Inventory Held For Sale
 - FY08 Annual Navy Working Capital Fund (Supply Management) Budget: \$7.3 Billion
 - 97X4930 NWCF Supply Management, Navy

NAVY MATERIAL ACCOUNTING - TOMORROW

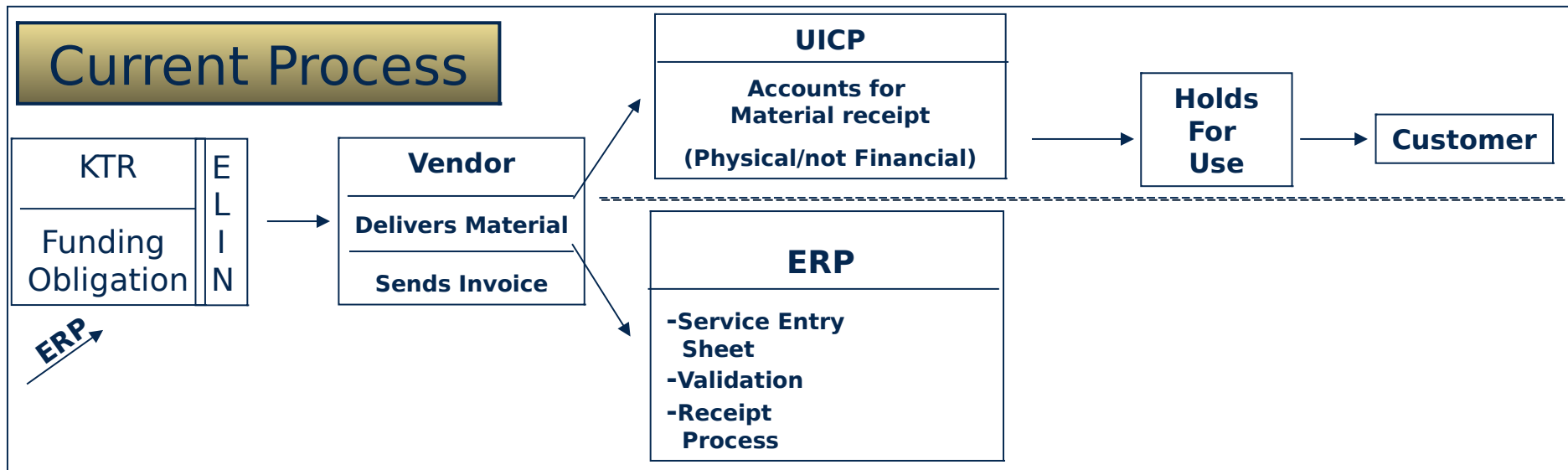
- Navy PEO/PM's will buy weapons systems, spares, and supporting items using a fully integrated business system (Navy ERP) capable of supporting enterprise-wide total asset visibility and producing auditable financial information which can be generated accurately and quickly enough to support optimal management of the enterprise.

OM&S MATERIALS IN NAVY ERP

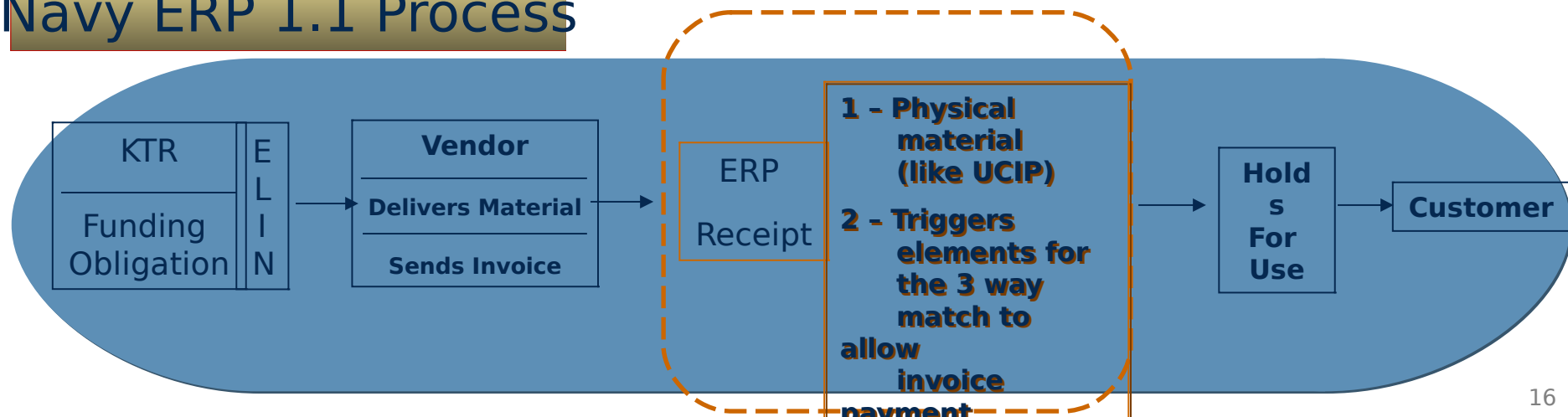
MATERIAL TYPES	N-ERP	LEGACY SYSTEM
APA Material Control Point (UICP)	Plant Stock	Uniform Inventory (zero/even COG)
Sponsor Owned Materials (SOM)/ Government Owned Materials (GOM)	Project Stock	Various systems
Residual Assets	Plant Stock	Real-time Reutilization Asset Mgmt (RRAM) System
HAZMAT	Plant Stock	Relational HAZMAT Inventory Control Systems (RHICS)& Others
Property in Possession of Contractors (GFM/CAM)	Project Stock	
Property, Plant and Equipment (PP&E)	Asset Records	Defense Property Accounting System (DPAS), Navy ERP, Various

APA	\$5.9B	\$25M	\$2.9B
SOM/GOM	\$3.6B	\$806.7M	\$6.4B
RRAM	\$491M		\$243M

CURRENT PROCESS -IMPLEMENTED



Navy ERP 1.1 Process



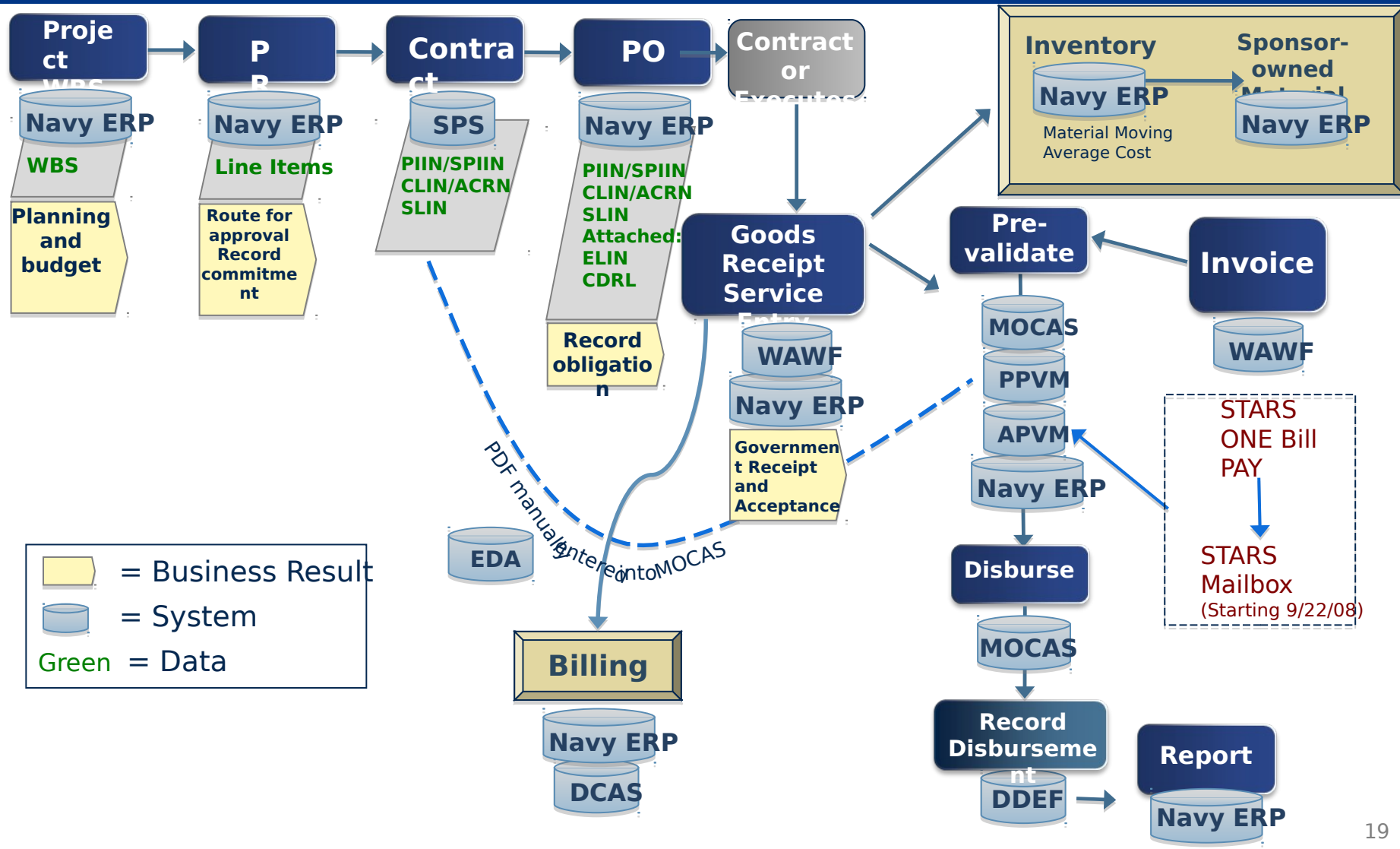
ACCOUNTING REQUIREMENT FOR MATERIAL EXPENSING

- Consumption vs. Purchase Method
 - Legacy systems have used the Purchase Method
 - OSD(C) guidance requires that new systems use the Consumption Method to better support Total Asset Visibility (TAV), proper financial reporting, and more efficient use of resources available
 - Navy ERP configured to use Consumption Method
 - OM&S will remain on the Balance Sheet of the procuring command until issued to the ultimate government consumer, sold to a commercial entity or FMS customer, transferred to the Balance Sheet of another federal government entity, or disposed.
- DFAS Bluebook Requirement 04.07.02
 - Statement of Federal Financial Accounting Standard (SFFAS) #3, paragraph 38
 - JFMIP-SR-03-02, 65

ACCOUNTING REQUIREMENT FOR INVENTORY VALUATION

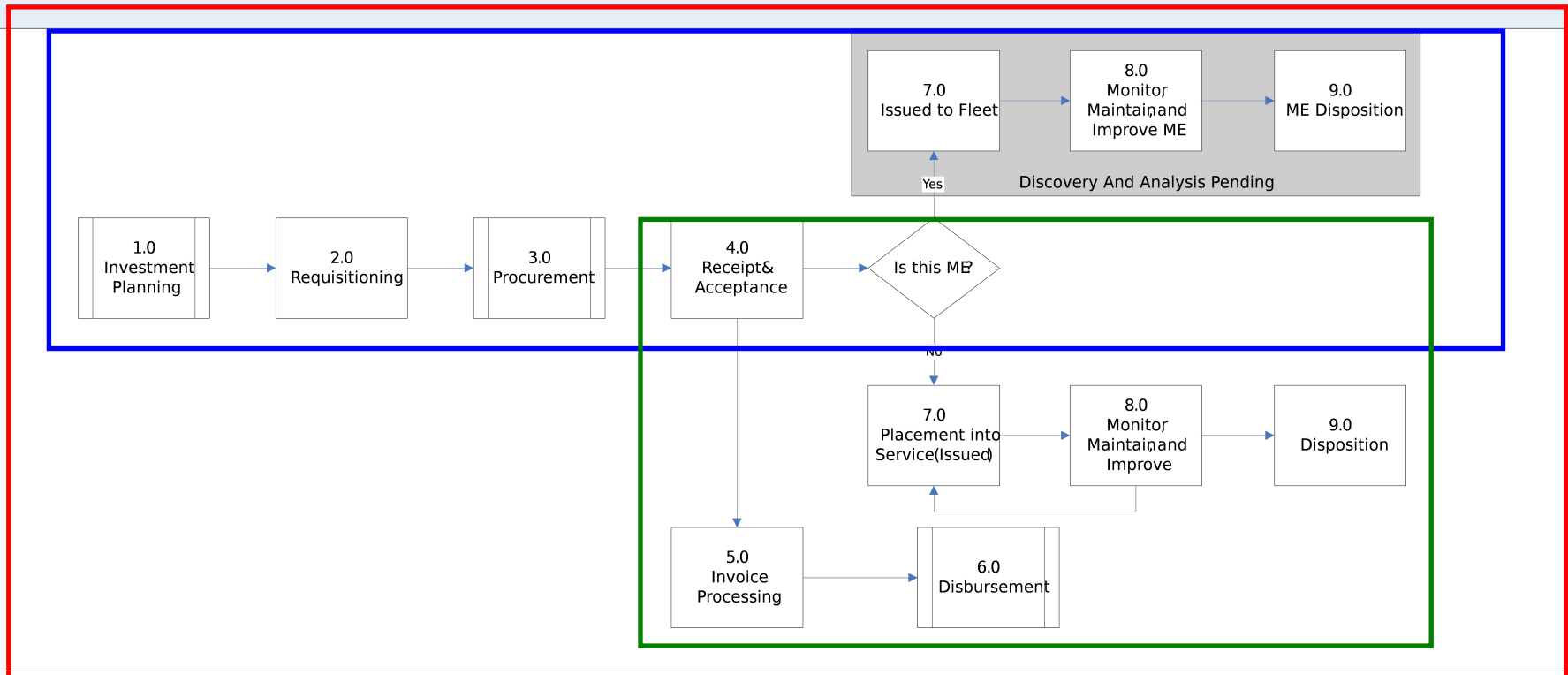
- Valuation of Inventory and Related Property
 - Moving Average Cost (MAC) of Ready For Issue (RFI) material (Plant or Project Stock) is stored in the Material Master at the Plant Level
 - Direct vs. Allowance Method of valuing Depot Level Repairables (DLR's)
 - Legacy uses Allowance Method
 - Navy ERP uses Direct Method
 - Carcass Values will be established and maintained for all Not Ready For Issue (NRFI) DLR's
- DFAS Bluebook Requirements 04.07.09 and 04.10.03
 - SFFAS #3 paragraphs 20 and 44
 - JFMIP -SR-03-02 Appendix C
 - DoDFMR Volume 4, Chapter 4, paragraph 040107A
 - OSD(C) Memorandum dated 06JUL2001 "Approved Valuation Method for Inventory Held for Sale and Operating Materials and Supplies"

THE END TO END EXTERNAL ENTITLEMENT PROCESS



SCOPE OF EFFORT

High Level Asset& Material Management
General EquipmentMilitary Equipmentand Operating Materials and Supplies



Gap Analysis and Pilot effort (Acquire to Dispose)

LEGEND

Gap Analysis

MEV Pilot

MM Pilot

N-ERP 1.1 PROCESS - CHANGES REQUIRED

- Material Masters Must Be Established Before A Material (IRP or PP&E) Can Be Added To a PR
- PO Line Item Account Assignments Must Reflect Material Purchases
- Contracts Must Be Written With Details At The CLIN/SLIN Level

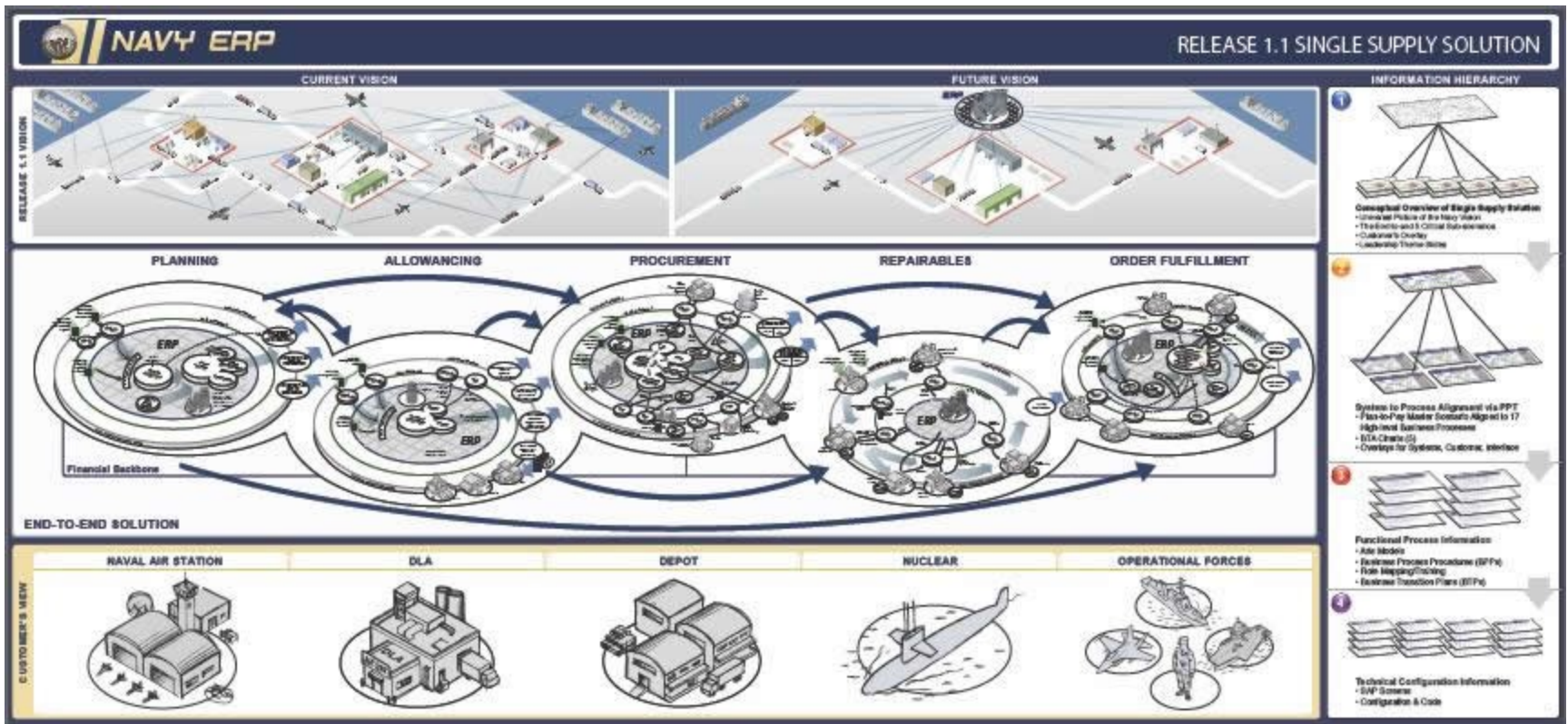
IMPACT OF PROCESS CHANGE

- Cons
 - New Upfront Workload For Program Managers, Business Financial Managers, And Contracting Officers
- Pros
 - Integrated Material Receipt And Acceptance Process
 - Line Item Receipt At CLIN/SCLIN Level
 - Provides Material Visibility Necessary To Issue Material To End-use Customer/Activity
 - Provides Compliant Moving Average Cost Material Valuation

PROPOSED WAY AHEAD

- All New Procurements For PP&E and OM&S must Have The Following:
 - Material Masters
 - PO Line Item Account Assignments For Material Purchases
 - Contracts With Material Details At The CLIN/SLIN Level
- Determine Best Methodology and Timeframe To Retire Existing Contracts

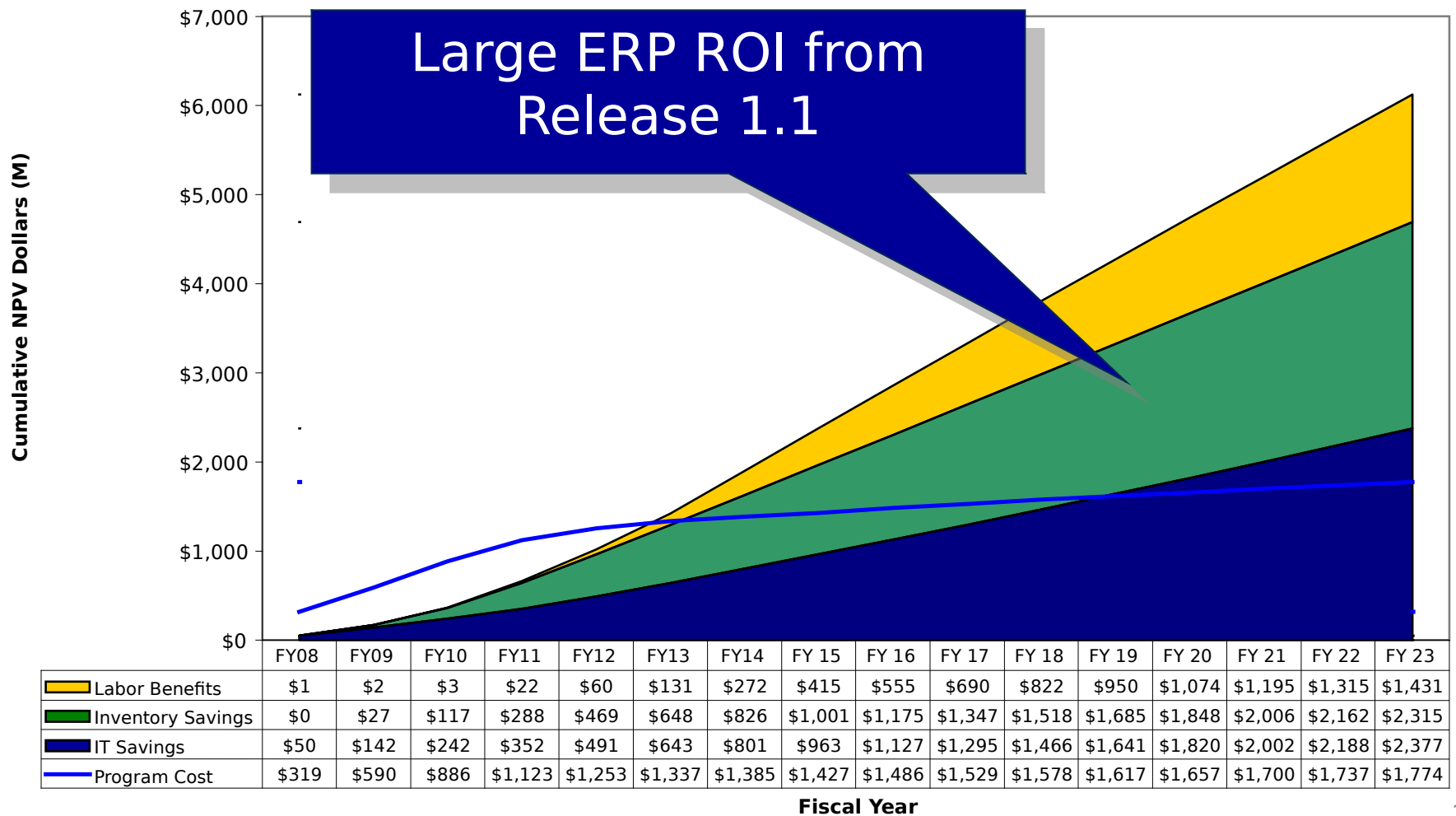
SINGLE SUPPLY SOLUTION



NAVY ERP BREAKEVEN CHART - POM

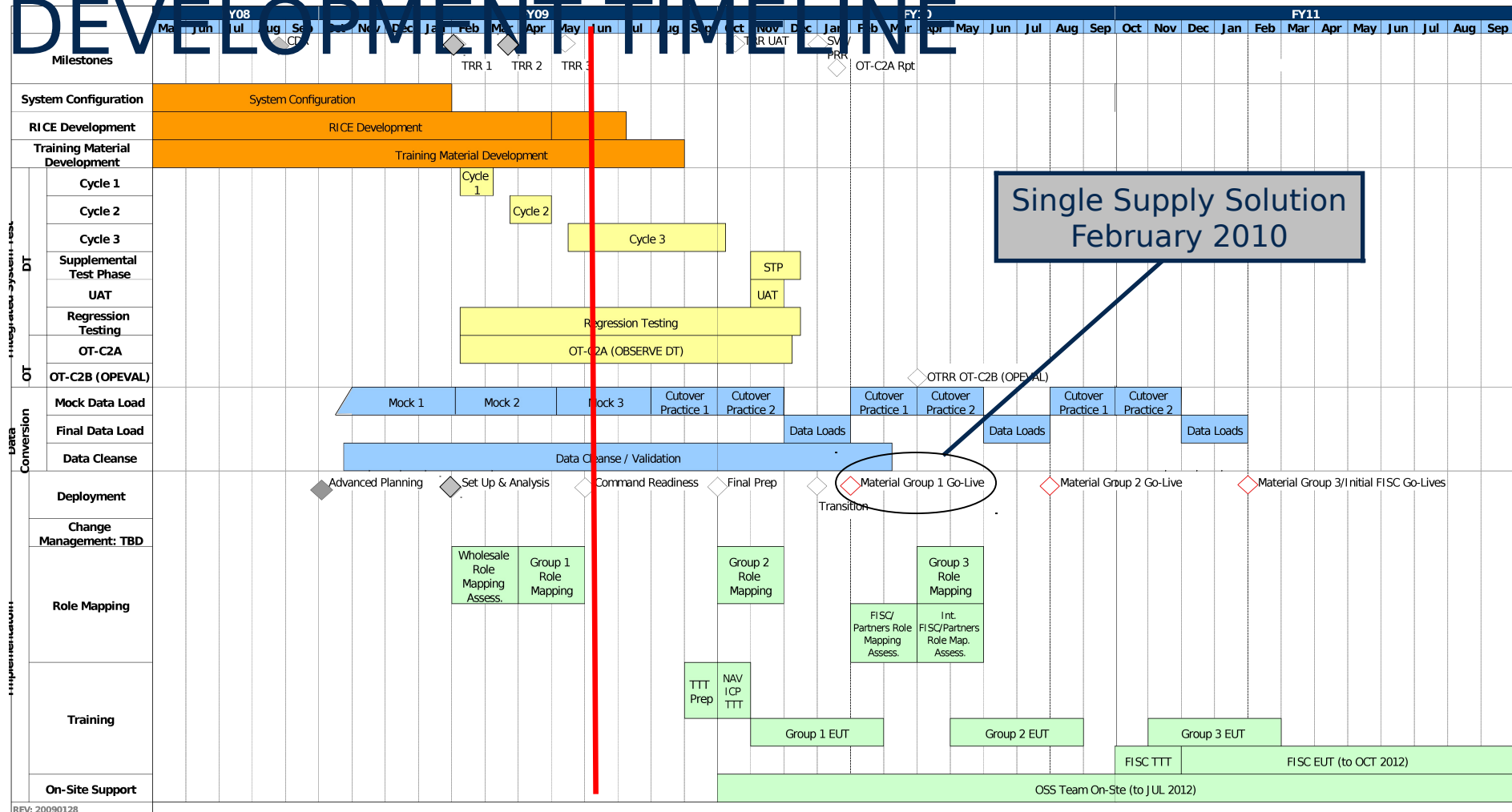
10

Economic Viability



NAVY ERP 1.1 - SINGLE SUPPLY SOLUTION

DEVELOPMENT TIMELINE



REV: 20090128

BUSINESS TRANSITION PLAN

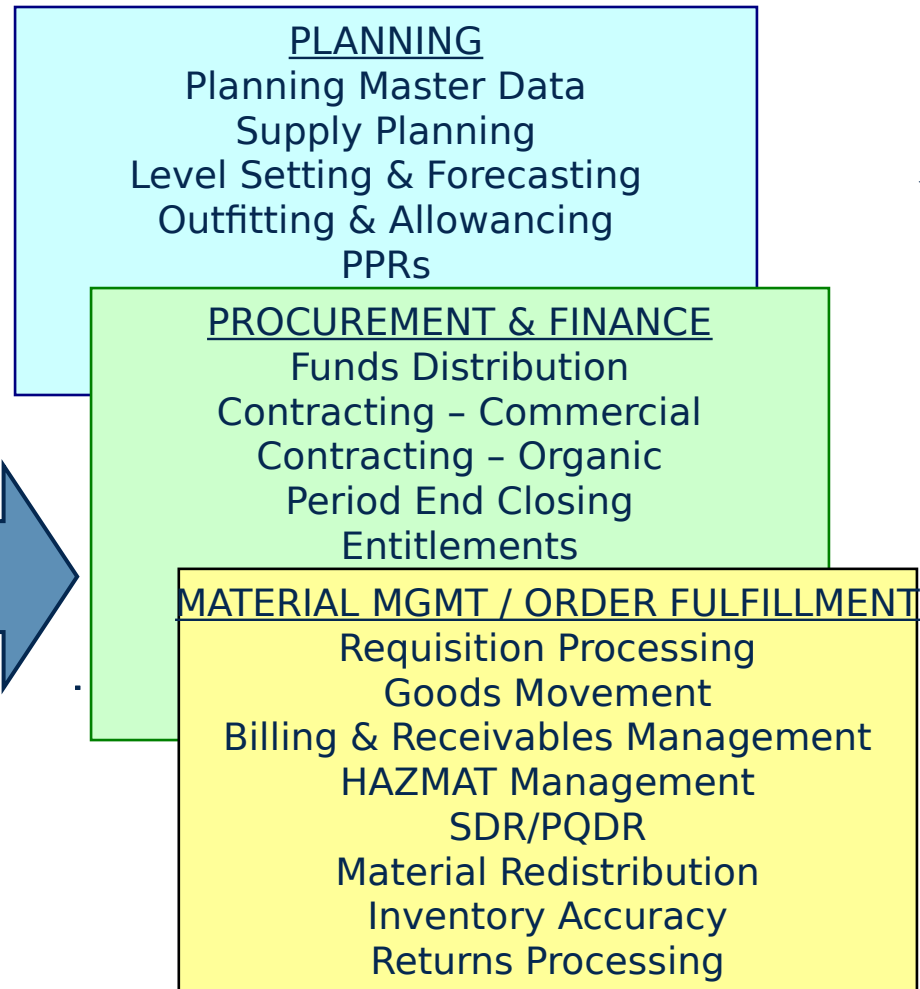
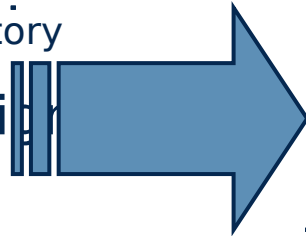


85 Level 4 Business Processes

- 16 Planning & Budgeting
- 37 Procurement
- 32 Order Fulfillment & Inventory

176 Functional Design Specifications (FDS)

- 21 Reports
- 75 Interfaces
- 29 Conversions
- 49 Enhancements
- 6 Portal/Workflows



18 BUSINESS PROCESSES

BACK UP SLIDES

NAVICP INTEGRATED WEAPONS SYSTEM

TEAM RELEASE

1.1 DEPLOYMENT SEQUENCE

- NAVICP Mechanicsburg
 - Phase 1 (01FEB2010)
 - SS L1/ASDS/DSSP
 - HM&E – Deck & Auxiliary
 - HM&E – Ships Propulsion
 - Phase 2 (01AUG2010)
 - FMS Support
 - Common Surveillance
 - Air Traffic Control
 - GPETE/RADIAC
 - Fire Control/Detection
 - Integrated Self Defense
 - Phase 3 (01FEB2011)
 - Strategic Weapons Systems
 - End Item/CARPER
 - Nuclear (87)
 - Nuclear (OSM)
 - Miscellaneous/Unspecified
- NAVICP Philadelphia
 - Phase 1 (01FEB2010)
 - H3/H53
 - Common Avionics
 - E2/C2
 - Phase 2 (01AUG2010)
 - H60
 - C130
 - A4/T2
 - AV8
 - F18A-F
 - P3
 - H1
 - FMS PEC
 - Phase 3 (01FEB2011)
 - EA6
 - SE
 - V22
 - H46
 - Engines
 - Kits/Miscellaneous

NAVAIR

OM&S

- Conventional Ammunition
 - Managed in/reported from Ordnance Information System (OIS) to DDRS-DCM
 - Not scheduled for conversion to Navy ERP
- Appropriation Purchase Account (APA) Material (Zero/Even COG)
 - Managed in/reported from UICP to DDRS-DCM
 - Scheduled for conversion to Navy ERP during Phases 1 and 2 of Release 1.1 conversion from UICP beginning 01FEB2010
- Sponsor Owned Material (SOM)
 - Managed in/reported from RRAM and CIR to DDRS-DCM
 - 11 reporting Sites:
 - Generic SOM: China Lake (CA), Barstow (CA), Port Hueneme/Point Mugu (CA), Jacksonville (FL), Cherry Point (NC), Norfolk (VA), Patuxent River (MD)
 - Foreign Military Sales (FMS) Reserve: Orange Park (FL) and Lakehurst (NJ)
 - Interim Supply Support (ISS): North Island (CA) and Beaufort (SC)
 - Special Tooling (ST)/Special Test Equipment (STE): Granite City (IL)...will be re-classified as General PP&E
- Property in Possession of Contractors (PIPC)
 - Contractor Acquired Material (CAM)
 - Government Furnished Material (GFM)
 - Managed in various contractor inventory systems
- Residual Assets
 - Managed in RRAM at above locations
 - Scheduled for conversion to Navy ERP NLT 01FEB2011 (Release 1.1 deployment date for first FISC)

RELEASE 1.1 SOLUTION FOR NAVAIR APA MATERIAL

- **Zero and Even COG**

- Conventional Ammunition (2E, 4E, 8E, and 8U COG) remains in OIS
- Zero COG (0Q, 0R, 0M, 0J and 0V) and Even COG (2V, 2W, 4K, 4R, 4Z, 6B, 6K, 6M, 6R, 6V, 8M, and 8N) will be converted from UICP
- 4V COG (Uninstalled Aircraft Engines and Modules) remains in AEMS/DECKPLATE until an ECP is submitted/approved to replace, or build a Navy ERP interface with, AEMS/DECKPLATE

- **Plant Structure**

- NAVAIR Plants will be established for physical locations (e.g., DLA Distribution Depots and other government and commercial storage sites) holding NAVAIR APA Material

- **Requisition Processing**

- DAAS will begin routing requisitions to Navy ERP upon transfer of NAVAIR APA items from UICP management during Phases 1 and 2 of Release 1.1 deployment to NAVICP beginning on 01FEB2010

- **Advanced Planning and Optimization (APO)**

- Will be used for buy-repair decisions for NAVICP managed NAVAIR APA items using NAVAIR funding that is currently provided as an allotment to NAVICP

SPAWAR

OM&S

- Appropriation Purchase Account (APA) Material (Zero/Even COG)
 - Managed in/reported from UICP to DDCRS-DCM
 - Scheduled for conversion to Navy ERP during Phase 1 of Release 1.1 conversion from UICP beginning 01FEB2010
- Sponsor Owned Material (SOM)
 - Managed in/reported from COLTS, SIMS, Inventory Management Suite, and various local databases to DDCRS-DCM
 - 2 reporting Sites:
 - SSC Pacific with locations in San Diego (CA), Guam, and Japan
 - SSC Atlantic with locations in Norfolk (VA), Charleston (SC), and Philadelphia (PA)
- Property in Possession of Contractors (PIPC)
 - Contractor Acquired Material (CAM)
 - Government Furnished Material (GFM)
 - Managed in various contractor inventory management systems

RELEASE 1.1 SOLUTION FOR SPAWAR APA MATERIAL

- **Zero and Even COG**

- Zero COG (0L and 0U) and Even COG (2Z and 4M) will be converted from UICP where applicable
 - SPAWAR (RIC: N77) currently receives fleet requisitions for 2Z COG items directly from DAAS
 - SPAWAR should convert on-hand balances of 2Z COG items when it deploys the Navy ERP 1.0 solution on 01OCT2009...DAAS could begin re-routing fleet 2Z COG requisitions to Navy ERP (RIC: NRP) as early as 01FEB2010 or upon conversion, whichever is later.

- **Plant Structure**

- SPAWAR Plants will be established for physical locations (e.g., DLA Distribution Depots and other government and commercial storage sites) holding SPAWAR APA Material

- **Requisition Processing**

- DAAS will begin routing requisitions to Navy ERP upon transfer of SPAWAR APA items from UICP management during Phase 3 of Release 1.1 deployment to NAVICP on 01FEB2011
- DAAS should also begin routing requisitions to Navy ERP upon conversion of SPAWAR APA items from SPAWAR legacy logistics systems beginning 01OCT2009

- **Advanced Planning and Optimization (APO)**

- If applicable, APO will be used for buy-repair decisions for NAVICP managed SPAWAR APA items using SPAWAR funding that would otherwise have been provided as an allotment to NAVICP

PERTINENT AUDIT FINDINGS ADDRESSED BY NAVY ERP DESIGN

- FY2008 DoN Federal Financial Management Improvement Act (FFMIA) Statement of Assurance
 - TAB D-2 Navy General Fund
 - Financial Reporting of Operating Materials & Supplies (OM&S)
 - Navy does not perform and document annual physical inventories of OM&S
 - Navy does not comply with established policy to require source documentation be provided to support or provide a clear and concise audit trail to the reported OM&S dollar values
 - Navy does not provide adequate oversight of contract work performed to modify the OM&S updating and reporting process
 - Navy legacy systems were designed for material management purposes but not designed to capture any financial information; therefore, the Navy cannot maintain the historical cost data necessary to comply with the FASAB Statement #3 of the Federal Financial Accounting Standards (SFFAS #3)
- Source Audits: DoDIG Reports D-2003-039, D-2004-036, D-2007-048, D-2007-085, and NAVAUDSVC Report N2007-0047
- Planned Milestone: Implement OM&S Capability Consistent with Navy ERP Rollout by 4th Qtr FY2013

NAVSEA LEGACY SYSTEM IMPACT

- ILSMIS
 - COMFISC Detachments operate some warehousing/inventory management functions at NAVSEA Warfare Centers
 - Navy ERP should be able to replace...further analysis recommended
- ROMIS-MMS
 - August 2008 decision made that Navy ERP will interface with ROMIS-MMS thru the DAAS interface
- PMICS
 - Navy ERP should be able to replace...further analysis recommended
- RRAM will be retired 01FEB2011...replaced by Navy ERP
- UICP Wholesale Databases (N32/N35) will be retired 01FEB2011...replaced by Navy ERP
- OIS will continue to manage NAVSEA APA Conventional Ammunition
- Contractor Inventory Systems Transaction Item Reporting (TIR) will be directed by DAAS to Navy ERP
- DLA/Navy Warehouse Transfer Initiative
 - If approved for any NAVSEA sites, Navy ERP will interface with DLA Distribution Standard System (DSS) thru DAAS

Navy ERP Solution for SOM converted from legacy NAVSEA logistics applications – ILSMIS

Example

- ILSMIS
 - Holds material owned by NAVSEA, NAVAIR, NAVSUP, SSP, SPAWAR, NAVFAC, DLA, Other Services (DoD), and non-DoD Federal Agencies
 - Navy Financial Reporting accomplished thru DDRS-DCM
 - Transaction Item Reporting (TIR) to UICP
- Converting on-hand balances from ILSMIS to Navy ERP
 - NAVSEA SOM will be converted to NAVSEA Company Code 1724
 - Non-Financial Company Code 9902 and discrete Plants created to hold materials owned by Navy entities (e.g., SSP) who have not deployed the Navy ERP solution yet and other entities (e.g., U.S. Coast Guard) that will never deploy the Navy ERP solution.
 - Non-Financial Company Code 9901 created to hold locally positioned DLA owned material
- Navy ERP Warehouse Management (WM) capability (as developed by Release 1.1) available (where needed) for NAVSEA Release 1.0 deployment

VALUATION

- 13 Step Valuation Methodology recommended by 2004 OSD(C) Report prepared by KPMG
 - Procurement History
 - Supporting Documentation
 - Corroboration
 - Interchangeability and Substitutability
 - Repair History
 - Materiality
 - Other Valuation Methods
- OM&S is valued two ways:
 - Ready For Issue (RFI) uses Moving Average Cost (MAC) based on RFI
 - Not Ready For Issue (NRFI) uses Carcass Cost which equals Estimated Repair Cost (ERC) to return the NRFI item to RFI

Baseline Validation Road Map Certification

Component and Entity/Activity

System and Category of Supply (Inventory or OM&S)

Step 1-2 Evaluation History	Step 3 Engineering Documentation	Step 4-5 Contractual Evidence	Step 6 B.S. Evidence	Reference Step 6-B	Step 8-9 Repair History	Step 11 Maturity	Step 12-13 Subject to O&V Validation
<p>No. of NINEs % of Total NINEs</p> <p>YES No. of NINEs % of Total NINEs \$ Value</p> <p>NO No. of NINEs % of Total NINEs \$ Value</p>	<p>No. of NINEs % of Total NINEs</p> <p>Partial or No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>YES No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p>	<p>No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p>	<p>No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p>	<p>No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p>	<p>No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p>	<p>No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p>	<p>Subject to O&V Validation</p> <p>YES No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p> <p>NO No. of NINEs % of Total NINEs</p>
100%	100%	100%	100%	100%	100%	100%	100%

I Certify that we have applied all applicable baselining steps and processes outlined in the OUSDIC memorandum and the attachments – and that, where exercised due diligence in determining the historical baseline cost values for each of the steps and for the overall system and class of supply designated – to include actual physical verification of quantities.

Signature: _____

ASG(FM&C) / DAS(FM&C) / Comptroller / Deputy Comptroller

Attachment 5

CONTRACT WRITING CONSIDERATIONS

- Material Masters must be established before a material (IRP or PP&E) can be added to a PR
- PO Line Item Account Assignments drive follow-on accounting treatment
- Contracts must be written with sufficient details at the CLIN/SLIN level to support payment pre-validation, material receipt, inventory valuation, and expenditure processing
- New upfront workload for program managers, business financial managers, and contracting officers
 - OSD(AT&L) leading change management effort
- Integrated workload for receipt and acceptance officials


NAVY ERP BALANCE SHEET REPORTING

- Navy ERP CFO Compliant Business Process
 - All Material contract line items need to indicate account assignment “Q” so material will be brought into Project Stock when Goods Receipt is performed.
 - As an interim measure this project stock could be issued (expensed) immediately and entered into existing legacy system – Until material is managed in Navy ERP
 - The benefit of entering material as project stock is that it will automatically be reflected on the owners balance sheet, meeting the FMO mandate for CFO compliancy.
 - The Risk is that if the contract line items are not structured in this manner all follow on receipts against that contract line item, cannot be automatically picked up on the balance sheet.

SOM DEFINITION AND LIFE CYCLE PHASES

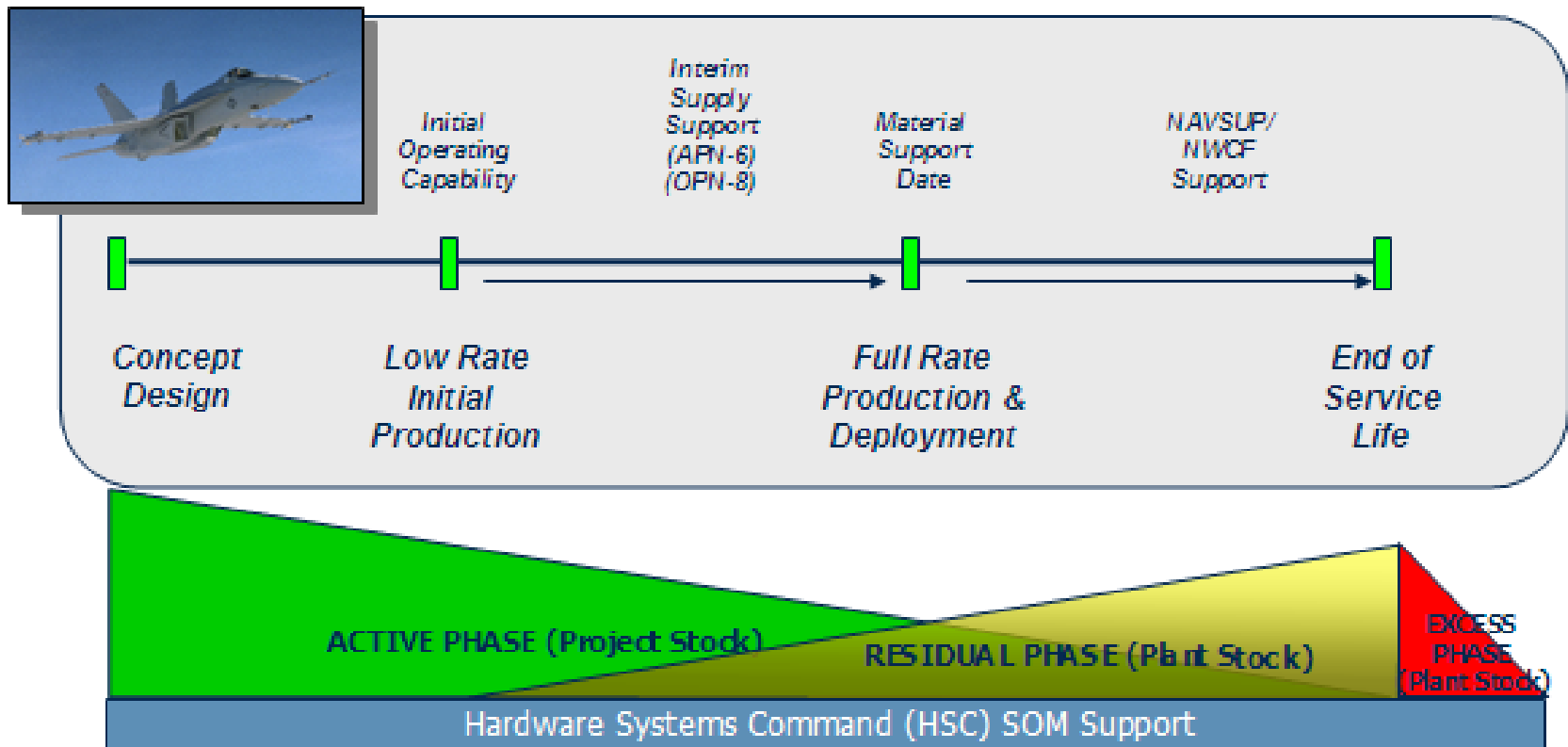
OM&S SOM is defined as programmatic material required in support of Program Manager's mission requirements for production, life cycle maintenance, and installation of systems and equipment consistent with the mission charter. The material usage may involve, but is not limited to: item fabrication, assembly, testing, manufacture, development, repair, or research and development.

- **Active Phase (Project Stock)**
 - Requirement-Based Program Management
 - Project Closeout
- **Residual Phase (Plant Stock)**
 - No known existing or future requirement by the acquiring program
 - PM (Sponsors) screen residual SOM for potential supply system (MTIS) or Fleet reutilization
 - FMS Reserve material is included in this residual SOM
 - Retained to support out-of-production and out-of-inventory sales
 - Plant Stock access can be restricted
- **Excess Phase (Plant Stock)**
 - Final stage in SOM Life Cycle... Awaiting transfer to DRMO for defense reutilization, marketing or disposal
 - Upon confirmation of no potential reutilization, PM (or SOM Manager) declares material "excess" and initiates disposal action



**SECNAV
Instruction 4440.33
newly updated**

SOM LIFE CYCLE - PHASES



**SOM Life Cycle Phases support
Weapon System acquisition / deployment / retirement.**

NAVY ERP SOM – LOGISTICS STRATEGY

- SOM Logistics Approach
 - Business Rules drive SOM availability and visibility
 - Project Stock will be visible but not available for sourcing
 - Plant Stock will be visible and available for sourcing
 - Visibility and availability across the Navy Enterprise conserves Navy Total Obligation Authority (TOA)
- February 2010
 - Converted SOM (Plant Stock only) becomes available to be sourced for Navy requisitioners thru the Release 1.1 Global Available To Promise (G-ATP) module based upon agreed upon Navy business rules
 - Warehouse Management (WM) (a.k.a. “dynamic bin management”) capability becomes available in Navy ERP production system

NAVY ERP SOM – REASON CODES

- SOM “Reason Codes” Management Approach
 - SOM (Retention) Reason Codes used by NAVAIR, NAVSEA, SSP, and SPAWAR can be accommodated by establishing a “smart” numbering schema in the Work Breakdown Structure (WBS) used in Navy ERP Project Systems (PS)
 - SOM requiring these Reason Codes will be recorded as Project Stock
 - Truly excess SOM inventories will be recorded as Plant Stock.
 - SOM inventories transitioned from legacy systems (e.g., RRAM or ILSMIS) before the SOM owner has converted its financial books will be temporarily recorded as non-valuated project or plant stock in the Navy ERP Non-Financial Company Code 9902